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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

JUL 1 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of: )  
 )  
Implementation of the Pay Telephone ) CC Docket No. 96-128  
Reclassification and Compensation )  
Provisions of the Telecommunications )  
Act of 1996 )

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COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION

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July 1, 1996

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July 1, 1996

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**UNITED STATES TELEPHONE ASSOCIATION**  
**SUMMARY OF COMMENTS**

Reducing the regulatory burden on incumbent exchange carriers to ensure parity among payphone service providers and the removal of implicit subsidies thereby allowing payphone compensation and rates to move toward economic costs will enable the Commission to meet its statutory mandate to promote competition among payphone service providers as well as the widespread deployment of payphone services.

All payphone service providers must be fairly compensated for all completed calls. Thus, 0 + , access code, subscriber 800, other toll free and debit card calls and international calls should be included in a per call compensation plan. Standards should be developed for use by the states in overseeing local coin calls. Such standards should include the following points: rates for coin calls must be market-based; rates for coin calls must not be implicitly subsidized; all payphone service costs must be removed from regulated accounts and all payphone service providers must be treated in the same manner. The carrier for the call should pay the per call compensation to the payphone provider.

Incumbent exchange carrier payphones should be classified as unregulated, detariffed CPE and transferred from regulated to unregulated status. There is no need to require structural separation. No federally-imposed cost support is required. The assets to be transferred should include all public telephone terminal equipment, including the associated taxes and depreciation. The loops connecting the payphones to the network and the central office coin-service or operator service facilities should not be transferred. The assets should be transferred at the depreciated cost at the time of the initial assignment

(net book value) in accordance with Part 64 rules. The Commission's references to the Joint Cost Order are not applicable to the one-time transfer of regulated assets, mandated by statute rather than at the behest of the carrier, to nonregulated accounts. The transfer of assets should not include an interest charge to reflect the time value of money.

Price cap incumbent exchange carriers should recover the costs attributable to payphone operations through an exogenous cost adjustment to the Common Line price cap basket PCI. A transition period is not necessary. Rate of return carriers should adjust their regulated rates for the changes in assets and operating costs based on Part 64. The Commission should permit the states to formulate the appropriate mechanism to remove intrastate subsidies. Any such adjustments must coincide with the implementation of per call compensation.

Public interest payphones should only be provided if the requesting entity agrees to compensate the payphone provider consistent with § 276 and pursuant to the standards listed above.

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**COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION**

The United States Telephone Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA is the principal trade association of the exchange carrier industry. Its members provide over 95 percent of the exchange carrier-provided access lines in the U.S.

**I. INTRODUCTION.**

The Telecommunications Act of 1996 at §276 requires the Commission to promote competition among payphone service providers and to promote the widespread deployment of payphone services to the benefit of the general public. In order to meet this mandate, the Commission should reduce the regulatory burden on incumbent exchange carriers to ensure parity among payphone service competitors necessary to promote full and fair competition. To the extent permitted under §276, incumbent exchange carriers and private payphone owners (PPOs) should be subject to the same requirements.

Currently, incumbent exchange carrier payphone providers are denied access to revenues currently available to other payphone providers due to regulation. As a result, incumbent exchange carrier payphone operations are subsidized by interstate carrier common line charges and by other regulated operations in the intrastate jurisdiction. The removal of these subsidies required by §276(b)(1)(B) and concurrent access to market based revenues (after current contracts expire) will allow payphone compensation and rates to move toward economic costs. This will further promote full and fair competition by sending the appropriate economic signals to all market participants as well as to customers.

## **II. PER-CALL COMPENSATION.**

### **A. Scope of Payphone Calls Covered by the Notice of Proposed Rulemaking (NPRM).**

The NPRM correctly observes that all payphone service providers must be fairly compensated for all completed calls. Thus, a determination must be made to ensure fair compensation for coin calls, directory assistance calls, operator-assisted (0+ or 0-) calls, access code (10XXX, 1-800, 950) calls and subscriber 800 calls, regardless of whether the completed call is local, intraLATA, interLATA, intrastate, interstate or international.

#### **1. 0+ Calls.**

PPOs and many non-BOC incumbent exchange carriers may have negotiated compensation amounts from interexchange carriers for all 0+ calls. USTA agrees with the

Commission that no new regulations are required in such instances, as the negotiation process has worked to ensure fair compensation. Until such time as the BOCs and other incumbent exchange carriers have negotiated contracts, they should receive per-call compensation for 0+ calls.

In addition, intraLATA toll calls should be treated in the same manner as interLATA toll calls, based on whether the call is an access code, subscriber 800 or 0+ call.

**2. Access Code, Subscriber 800, Other Toll-Free and Debit Card Calls.**

USTA also supports the Commission's tentative conclusion that access code, subscriber 800, other toll-free and debit card calls should be included in the Commission's efforts to ensure fair compensation through the implementation of per-call compensation.

**3. International Calls.**

Although not specifically addressed in §276, international calls should also be included in the Commission's proposal.

**4. Coin Calls.**

Regulation of local coin calls has historically been within the province of state regulators. Given the fact that costs and revenues vary widely among different payphone equipment and locations, such oversight is appropriate. However, some state regulators have capped payphone service rates at levels which require subsidization to recover costs. Since §276 requires the removal of subsidies to encourage competition, the continuation of such rates may not permit incumbent exchange carrier payphone service providers to

recoup those costs.<sup>1</sup>

The public interest will best be served by the development of standards which the states would follow in overseeing local payphone services. Such standards should meet the mandate of §276 by including the following points:

- Rates for coin calls must be market-based.
- Rates for coin calls must not be implicitly subsidized.
- All payphone service costs must be removed from regulated accounts.
- All payphone service providers must be treated in the same manner.

§276 provides the Commission with the authority to ensure that these standards are followed.

In addition, incumbent exchange carriers should be permitted to charge the payphone service provider for local 411 Directory Assistance calls. Currently, many state jurisdictions prohibit incumbent exchange carriers from charging for such calls. This practice is inconsistent with §276(b)(1)(A) and (B).

Finally, intraLATA coin toll calls should not be treated in the same manner as local coin calls. IntraLATA coin toll calls cannot be differentiated from interLATA calls. Therefore, intraLATA coin toll calls should be treated in the same manner as access code, subscriber 800 or 0+ calls with fair compensation paid to the payphone provider.

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<sup>1</sup>Many incumbent exchange carriers have incurred considerable expense to upgrade their payphone equipment, for example to meet new requirements for disabled customers, with the expectation that those costs would be recovered.



**B. Entities Required to Pay Compensation.**

As noted above, §276 requires that payphone service providers be fairly compensated for every interstate and intrastate call. In order to implement this requirement, the carrier for the call should pay the per-call compensation to the payphone provider. USTA agrees with the Commission that this method is the most efficient and least costly, since payments are made on an aggregated basis and individual call records are not necessary.

**C. Administration of Per-Call Compensation.**

Consistent with current requirements for dial-around compensation, incumbent exchange carriers should continue existing arrangements to offer a "snapshot" of the ANI information on a quarterly basis pursuant to § 64.1301(e) of the Commission's rules.

**III. RECLASSIFICATION OF INCUMBENT EXCHANGE CARRIER PAYPHONES.**

**A. Classification as CPE.**

To promote fair competition, incumbent exchange carrier payphones should be classified as unregulated, detariffed CPE. USTA agrees with the Commission's tentative conclusion that incumbent exchange carriers should not be required to structurally separate their payphone operations.<sup>2</sup> Current safeguards have proved to be adequate to protect against unreasonable discrimination.

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<sup>2</sup>Further, there is no need to alter existing Part 64 rules to create cost pools or to change current accounting practices and procedures

Incumbent exchange carrier-provided payphone line service, features and functions should be tariffed at the state level. Therefore, no federally-imposed cost support is necessary.

**B. Transfer of Payphone Equipment to Unregulated Status.**

USTA also agrees with the Commission's tentative conclusion that if incumbent exchange carrier payphones are to be treated as unregulated, detariffed CPE, then the payphones and all directly related equipment should be transferred from regulated to unregulated status. This result is consistent with the Commission's Part 64 rules which require that the costs of regulated telephone service be separated from the costs of nonregulated activities.

The assets which are to be transferred should include all public telephone terminal equipment, including the associated taxes and depreciation. USTA also agrees with the Commission's tentative conclusion that the assets to be transferred should not include the loops connecting the payphones to the network or the central office coin-service or operator service facilities supporting incumbent exchange carrier payphones.

However, USTA asserts that the identified payphone and related equipment should be transferred at the depreciated cost at the time of the initial assignment (i.e., net book value) in accordance with the asset transfer rules as stated in § 32.27(c).

The Commission's proposal to transfer the identified payphone assets is, at best, unclear. The Commission's reliance on paragraph 170 of the Joint Cost Order is of great concern, since that paragraph applies to cases where jointly-used assets are under-allocated

from regulated to unregulated services during an accounting period.<sup>3</sup> That section of the Joint Cost Order was clearly not intended to apply to the one-time transfer of regulated assets, mandated by statute rather than at the behest of the carrier, to nonregulated accounts.

For that same reason, USTA strongly disagrees with the Commission's tentative conclusion that the transfer of assets related to payphone service should include an interest charge to reflect the time value of money. That charge was designed to protect the ratepayer from underwriting the costs of unused capacity, added as a result of an improper forecast, that would eventually be utilized to meet growing nonregulated demand. The transfer at issue in this proceeding is not being implemented as a result of an improper forecast, but rather as a result of a statutory mandate. Since the entire amount of the investment, along with the associated expenses and revenues are being transferred, the ratepayer will not be harmed by such a transfer so long as it is conducted under the auspices of § 32.27(c) of the Commission's rules.

Paragraphs 285 through 289 of the Joint Cost Order confirm that identified payphone assets should be transferred at net book value. Net book value is appropriate for a number of reasons. Net book value is currently used by incumbent exchange carriers pursuant to the Joint Cost Order. The organization and administrative cost of establishing independent valuation would be significant for assets which have such a limited market in

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<sup>3</sup>Separation of Costs of Regulated Telephone Service for Costs on Nonregulated Activities, 2 FCC Rcd 1298, 1370 (1978). [Joint Cost Order].

which to be purchased. Finally, because the transfer is mandatory, the impact of the transfer should be neutral: neither the customers of regulated services nor the future customers of nonregulated services should receive a benefit from the transfer.

Finally, the net book value transfer should be flash cut. This will ensure that the subsidization is eliminated, as required by §276, and will avoid any problems which could result in attempting to ensure proper accounting during a transition period.

**C. Termination of Access Charge Compensation and Other Subsidies.**

§276(b)(1)(B) requires incumbent exchange carriers to discontinue intrastate and interstate carrier access charge payphone elements and payments and all intrastate and interstate payphone subsidies from basic exchange and exchange access revenues.<sup>4</sup> For

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<sup>4</sup>The following Part 32 accounts may contain costs attributable to payphone operations:

1220	Materials and Supplies
1410	Other Noncurrent Assets
2001	Telecommunications Plant in Service
2002	Property Held for Future Use
2003	Telephone Plant Under Construction
2110-2120	Land and General Support Assets
2351	Public Telephone Terminal Equipment
2681	Capital Leases
2682	Leasehold Improvements
3100	Accumulated Depreciation
3410	Amortization of Capitalized Leases
3420	Amortization of Leasehold Improvements
4040	Customer Deposits
4100	Net Current Deferred Operating Income Taxes
4310	Other Long Term Liabilities
4340	Net Noncurrent Deferred Operating Income Taxes
4360	Other Deferred Credits
6110-6120	General Support Expenses

price cap exchange carriers, the recovery of these costs from access rates will be discontinued through an exogenous cost adjustment to the Common Line price cap basket PCI.<sup>5</sup> A transition period is not necessary.<sup>6</sup> Rate of return carriers should adjust their regulated rates for the changes in assets and operating costs based on the results of the accounting changes made to payphone assets and expenses.

Intrastate rates may or may not require adjustment for charges that recover the costs of payphones. Intrastate rates are required to mirror interstate rates in some states, whereas in other states rates are based on a number of factors. The Commission should permit the states to formulate the appropriate mechanism to remove intrastate subsidies in recognition of differing state regulatory requirements. However, any adjustments must coincide with the implementation of per call compensation.

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6351	Public Telephone Terminal Equipment Expense
6510	Other Property, Plant and Equipment Expense
6530	Network Operations Expense
6560	Depreciation and Amortization Expense
6610	Marketing Expense
6623	Customer Services Expense
6710-6720	Corporate Operations Expenses
7200	Operating Taxes
7510-7540	Interest Expense

<sup>5</sup>Carriers will use the current Part 69 rules to identify payphone set and related costs contained in the carrier common line rates. These costs will be removed from the carrier common line rate as an exogenous cost adjustment. Public payphone loop costs will continue to be regulated and will be reallocated to the Base Factor Portion of the Common Line basket.

<sup>6</sup>The Commission must permit this new exogenous cost adjustment pursuant to § 61.45(d) of the Commission's rules.

The SLC should apply to subscriber lines that terminate at both incumbent exchange carrier and other payphones. No additional charge, nor imputation of the difference between the SLC cap and the full cost of subscriber lines for payphones, is required. If any loop subsidies exist, they will be uniform for all loops, not just payphone loops. To the extent there is any support, all payphone loops will receive a subsidy and no provider will be disadvantaged.

**D. Deregulation of AT&T Payphones.**

AT&T payphones should be treated the same as incumbent exchange carrier payphones. AT&T payphone operations should not receive subsidization from other AT&T services.

**IV. NON-STRUCTURAL SAFEGUARDS.**

Computer Inquiry III non-structural safeguards, even as modified by the statute, are appropriate for the payphone operations of the BOCs. These safeguards have proven to be effective. The current rules established by the Joint Cost Order and confirmed in subsequent orders provide adequate accounting safeguards for the other incumbent exchange carriers. Any additional requirements would be burdensome and would place incumbent exchange carriers at a competitive disadvantage.

**V. ABILITY OF BOCs TO NEGOTIATE WITH LOCATION PROVIDERS ON THE PRESUBSCRIBED INTERLATA CARRIER.**

§276(b)(1)(C) provides the BOCs with the same right as PPOs to negotiate and contract with the location provider regarding the interLATA carrier. This is clearly in the public interest as it will encourage lower end user rates, increased deployment of payphones and increased customer choices by ensuring full and fair competition in the payphone market.

**VI. PUBLIC INTEREST PAYPHONES.**

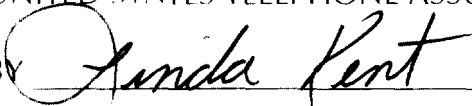
Public interest payphones, as defined in §276(b)(2), should only be provided if the requesting entity agrees to compensate the payphone provider consistent with all of the provisions of §276 and pursuant to the standards listed above. The location, terms and conditions should be negotiated between the payphone provider and the requesting entity. Incumbent exchange carriers should not be required to be the only provider of public interest payphones.

**VII. CONCLUSION.**

The implementation of § 276 as recommended in USTA's comments will ensure that the mandate of Congress to promote competition among payphone service providers and to promote the widespread deployment of payphone services to the benefit of the general public will be met.

Respectfully submitted,

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